

CLAY COUNTY

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

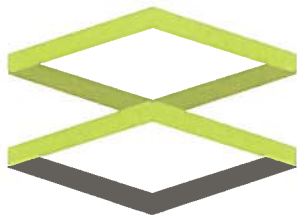
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CLAY COUNTY

OFFICIALS

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|---------------------|----------------------|---------------------|
| Delmar R. Brockshus | Board of Supervisors | January 2017 |
| Joe Skow | Board of Supervisors | January 2017 |
| Ken Chalstrom | Board of Supervisors | |
| Barry Anderson | Board of Supervisors | January 2019 |
| Burlin Matthews | Board of Supervisors | January 2019 |
| Linda Swanson | Board of Supervisors | January 2019 |
| Marjorie A. Pitts | County Auditor | January 2017 |
| Sandra Geidl | County Treasurer | January 2019 |
| Shirley Goyette | County Recorder | January 2019 |
| Randy Krukow | County Sheriff | January 2017 |
| Kristi Kuester | County Attorney | January 2017 |
| John Lawson | County Assessor | January 2022 |



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INDEPENDENT AUDITORS' REPORT

To the Officials of Clay County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Clay County as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 12 and 45 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of Clay County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clay County's internal control over financial reporting and compliance.

Winther, Stave & Co., LLP

November 30, 2016
Spencer, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Clay County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the County's financial statements which follow.

2016 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased \$700,310 (4.3%) from fiscal 2015 to fiscal 2016 due primarily to the reduction of Roads and Transportation capital grants and contributions and unrestricted grants and contributions. Property tax increased \$112,629; grants, contributions and restricted interest decreased \$1,146,501; and net other revenues increased \$333,562.
- Program expenses of the County's governmental activities increased \$225,170 (or 1.7%), from fiscal 2015 to fiscal 2016. Expenses in the areas of public safety and legal service, physical health and social services, County environment and education, roads and transportation, administration, governmental services to residents, interest on long-term debt, and non-program increased a total of \$1,032,388, while expenses in mental health decreased a total of \$807,218.
- The County's net assets increased \$1,988,692 from June 30, 2015 to June 30, 2016 compared to a \$2,914,172 increase for the previous fiscal year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Clay County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clay County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining financial statements provide financial information about activities for which Clay County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in the County's net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The County's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has two kinds of funds:

1. Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Mental Health, Rural Services, Local Option Sales Tax, and Secondary Roads, (c) the Debt Service Fund and (d) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

2. Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for schools, incorporated cities, and County offices, to name a few.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Clay County's combined net position for FY2016 totaled \$43,336,585 compared to \$41,347,893 for FY2015. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities

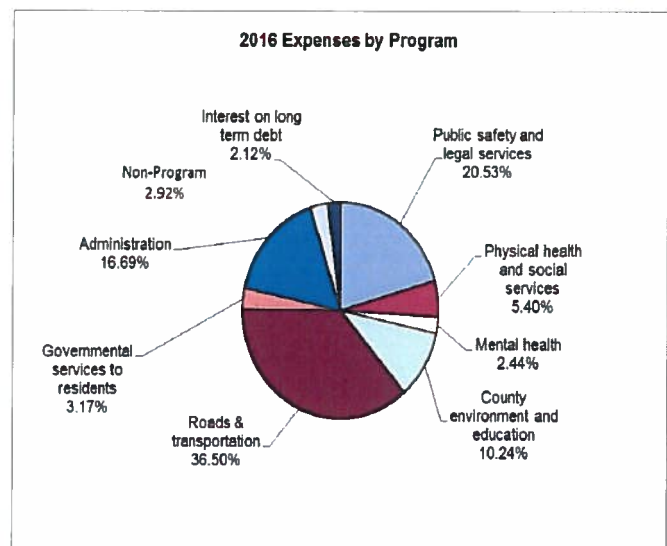
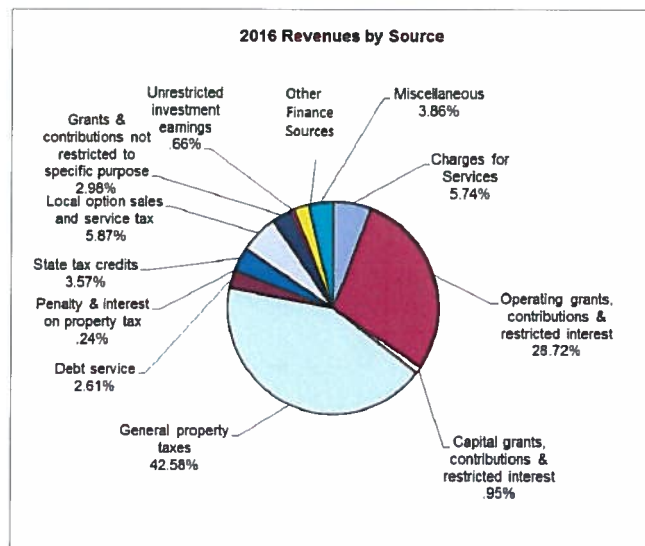
| | June 30, | |
|--|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Current and other assets | \$18,028,470 | \$17,637,304 |
| Capital assets | <u>42,626,172</u> | <u>39,609,053</u> |
| Total assets | <u>60,654,642</u> | <u>57,246,357</u> |
| Deferred outflows of resources | <u>1,117,079</u> | <u>586,408</u> |
| Long-term liabilities | 8,735,094 | 8,098,621 |
| Other liabilities | <u>1,861,252</u> | <u>292,040</u> |
| Total liabilities | <u>10,596,346</u> | <u>8,390,661</u> |
| Deferred inflows of resources | <u>7,838,790</u> | <u>8,094,211</u> |
| Net position: | | |
| Net investment in capital assets | 36,578,541 | 33,542,121 |
| Restricted | 4,592,690 | 6,152,308 |
| Unrestricted | <u>2,165,354</u> | <u>1,653,464</u> |
| Total net position | <u>\$43,336,585</u> | <u>\$41,347,893</u> |

Net position of the County's governmental activities increased 4.8%. The largest portion of the County's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased from \$1,653,464 at June 30, 2015 to \$2,165,354 at the end of this year, an increase of 30.9%, primarily due to deferred outflows of resources.

Changes in Net Position of Clay County Governmental Activities

| | Year ended June 30, <u>2016</u> | 2015 |
|---|------------------------------------|---------------------|
| Program revenues: | | |
| Charges for service | \$ 900,647 | \$ 913,933 |
| Operating grants, contributions, and restricted interest | 4,509,481 | 3,654,603 |
| Capital grants, contributions, and restricted interest | 149,782 | 1,341,917 |
| General revenues: | | |
| Property tax: | | |
| General purposes | 6,685,074 | 6,576,259 |
| Debt service | 409,917 | 406,103 |
| Penalty and interest on property tax | 38,063 | 30,943 |
| State tax credits | 560,834 | 519,437 |
| Local option sales tax | 921,889 | 921,345 |
| Grants and contributions not restricted to specific purpose ... | 467,916 | 1,277,160 |
| Unrestricted investment earnings | 103,000 | 64,484 |
| Other financing sources | 347,486 | 172,773 |
| Miscellaneous | <u>605,781</u> | <u>521,223</u> |
| Total revenues | <u>15,699,870</u> | <u>16,400,180</u> |
| Program expenses: | | |
| Public safety and legal service | 2,814,442 | 2,649,840 |
| Physical health and social services | 740,391 | 717,582 |
| Mental health | 334,920 | 1,142,138 |
| County environment and education | 1,403,774 | 1,289,283 |
| Roads and transportation | 5,004,481 | 4,655,838 |
| Governmental services to residents | 434,197 | 399,431 |
| Administration | 2,288,803 | 2,220,631 |
| Nonprogram | 399,726 | 173,813 |
| Interest on long-term debt | <u>290,444</u> | <u>237,452</u> |
| Total expenses | <u>13,711,178</u> | <u>13,486,008</u> |
| Change in net position | 1,988,692 | 2,914,172 |
| Net assets - beginning of year - as restated | <u>41,347,893</u> | <u>38,433,721</u> |
| Net assets - end of year | <u>\$43,336,585</u> | <u>\$41,347,893</u> |

(For illustrative purposes)



Clay County's governmental activities net position increased by \$1,988,692 during the year. Revenues for governmental activities decreased by \$700,310 over the prior year primarily due to a decrease in road construction funding revenues. The revenues for governmental activities did include a property tax revenue increase from the prior year of \$112,629 or 1.6%.

The County property tax rates for fiscal year 2016 decreased from \$15.45 to \$15.21 per thousand dollars of valuation. The increase in taxable valuation raised the County's property tax revenue approximately \$113,000 in fiscal year 2016. Based on January 1, 2015 assessed valuation, property tax revenue is budgeted to increase by approximately \$450,000 in fiscal year 2017.

The cost of all governmental activities this year was \$13,711,178 compared to \$13,486,008 last year. However, as shown in the Statement of Activities on page 14, the amount taxpayers ultimately financed for these activities was \$8,151,268 because some of the cost was paid by those directly benefited from the programs (\$900,647) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,659,263). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2016 from \$5,910,453 to \$5,559,910, principally due to less road construction funding received through the Iowa Department of Transportation. The County paid for the remaining "public benefit" portion of governmental activities with \$10,139,960 in taxes (some of which could only be used for certain programs) and other revenues, such as interest, general intergovernmental aid, and miscellaneous other sources.

INDIVIDUAL MAJOR FUND ANALYSIS

As Clay County completed the year, its governmental funds reported a combined fund balance of \$8,148,551, a decrease of \$1,502,483 from last year's total of \$9,651,034. The decrease in fund balance is primarily attributable to a decrease in secondary roads funds. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund expenditures increased while revenues remained constant. The fund balance showed a decrease of \$211,367, ending at \$3,372,215.
- Mental health revenues and expenditures decreased. A large decrease in expenditures was due to a prior year one-time distribution of funds to the regional fiscal agent. The Mental Health Fund balance increased by \$148,966 from the prior year, ending at \$178,790.
- Secondary Roads Fund revenues decreased and expenditures increased from the prior year. Primarily due to increased roads and capital projects expenditures, the fund balance showed a decrease of \$1,404,466, ending at \$3,278,069.
- Capital projects transfers in decreased more than expenditures decreased. The fund balance decreased by \$177,067, ending at \$180,260.

BUDGETARY HIGHLIGHTS

Over the course of the year, Clay County amended its budget two (2) times. The amendments were made September 29, 2015 and April 26, 2016 and consisted of an increase in budgeted disbursements of \$578,582, primarily for county environment and education and administration. Recognized increases in receipts were primarily in the areas of intergovernmental receipts. The amendments resulted in a budgeted excess of disbursements over receipts of \$3,530,304.

The County's receipts were \$919,761 more than budgeted, a variance of 6.5%. Total disbursements were \$2,798,160 less than budgeted, a variance of 15.9%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, Clay County had \$42,626,172 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of \$3,017,119, or 7.6%, over last year.

Capital Assets of Governmental Activities at Year End

| | June 30, | |
|----------------------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Land | \$ 2,045,752 | \$ 1,931,866 |
| Construction in progress | 1,738,170 | |
| Buildings and improvements | 9,758,768 | 10,035,662 |
| Equipment and vehicles | 2,616,957 | 2,432,177 |
| Infrastructure | <u>26,466,525</u> | <u>25,209,348</u> |
| Total | <u>\$42,626,172</u> | <u>\$39,609,053</u> |

Major additions for the year included the following: \$615,758 for equipment and vehicles and \$3,553,383 related to construction in progress and road infrastructure.

The County had depreciation expense of \$1,300,908 in fiscal year 2016 and a total accumulated depreciation of \$12,509,771 as of June 30, 2016.

Long-Term Liabilities

At June 30, 2016, Clay County had \$6,047,631 in general obligation bonds/notes and other debt outstanding compared to \$6,066,932 at June 30, 2015, as shown below.

Outstanding Debt of Governmental Activities at Year End

| | June 30, | |
|--------------------------------|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| General obligation notes | \$5,338,367 | \$5,662,048 |
| Drainage warrants | <u>709,264</u> | <u>404,884</u> |
| Total | <u>\$6,047,631</u> | <u>\$6,066,932</u> |

Debt decreased \$19,301 due to notes being retired exceeding increases in drainage warrants.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Clay County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$48 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Clay County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and the fees charged for various County activities. One of those factors is the economy. Unemployment in Clay County on June 30, 2016 stood at 4.3 % versus 3.5% a year ago. This compares with the State's unemployment rate of 4%, which was among eleven (11) states having lower unemployment rates than the 4.9% national average as of June 30, 2016. Other states with the right mix of industries, natural resources, and skilled workers were Colorado, Hawaii, Idaho, Maine, Nebraska, New Hampshire, North Dakota, South Dakota, Vermont and Virginia.

Inflation in the State of Iowa at 2.1% is slightly higher than the national Consumer Price Index of 2.07% in the year ending June 2016, down from 3% in the year ended June 2015. Inflation has been modest here due in part to the stability of the residential housing market and energy prices.

These indicators were taken into account when preparing the budget for fiscal year 2017. Amounts available for appropriation in the 2017 operating budget are approximately \$15.0 million, which reflects an increase compared to \$13.8 million budgeted in 2016, primarily attained from property taxes. Budgeted disbursements are expected to decrease to approximately \$15.9 million, primarily through a reduction in the Capital Projects area.

If these estimates are realized, the County's budgetary cash operating balance is expected to decrease from 2016 by approximately \$900,000 by the close of 2017.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Clay County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Clay County Auditor's Office, 300 W. 4th St., Spencer, Iowa. The County's financial statements can also be found on our website www.co.clay.ia.us.

Reporting Resources:

Consumer Price Index Summary

http://www.bls.gov/regions/mountain-plains/news-release/consumerpriceindex_midwest.htm

http://www.bls.gov/data/inflation_calculator.htm

<http://www.usinflationcalculator.com>

<http://www.forecast-chart.com/forecast-inflation-rate.html>

Local Area Unemployment Statistics

<http://www.iowaworkforce.org/lmi/laborforce/etables/area21.txt>

Iowa Workforce Information Network

<http://iwin.iwd.state.ia.us/iowa/Regions>

http://www.nbcnews.com/id/38838429/ns/business-us_business/t/states-ridiculously-low-unemployment/#.VOELF010zr4

<http://www.bls.gov/web/laus/laumstrk.htm>

Iowa Workforce Cost of Living

<http://iwin.iwd.state.ia.us/iowa/OlmsZine?zineid=00000003>

Iowa County Financial Overview

<http://www.iowacounties.org/Services/Research/FiscalInfo/CFO/CFOPage.htm>

Economy At A Glance

http://data.bls.gov/timeseries/CUUR0000SA0?output_view=pct_12mths

<http://www.bls.gov/eag/>

<http://www.bls.gov/eag/eag.wy.htm>

http://www.bls.gov/regions/midwest/news-release/countyemploymentandwages_iowa.htm#table3.xlsx

Office of National Statistics

<http://www.deptofnumbers.com/unemployment/>

**CLAY COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and pooled investments | \$ 9,042,734 |
| Receivables: | |
| Property tax: | |
| Delinquent | 32,201 |
| Succeeding year | 6,927,000 |
| Accounts and drainage assessments | 815,901 |
| Notes and contracts | 362,745 |
| Accrued interest | 4,276 |
| Due from other governments | 116,556 |
| Inventories | 703,487 |
| Prepaid expenses | 23,570 |
| Capital assets - net of accumulated depreciation | 42,626,172 |
| TOTAL ASSETS | <u>60,654,642</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension related deferred outflows | 1,117,079 |
| TOTAL | <u>\$ 61,771,721</u> |
| LIABILITIES | |
| Accounts payable | \$ 1,861,252 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| General obligation notes | 319,432 |
| Compensated absences | 152,000 |
| Portion due or payable after one year: | |
| General obligation notes | 5,018,935 |
| Drainage warrants | 709,264 |
| Net pension liability | 2,393,463 |
| Net OPEB liability | 142,000 |
| TOTAL LIABILITIES | <u>10,596,346</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable property tax revenue | 6,927,000 |
| Pension related deferred inflows | 911,790 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>7,838,790</u> |
| NET POSITION | |
| Net investment in capital assets | 36,578,541 |
| Restricted for: | |
| Supplemental levy purposes | 383,385 |
| Mental health purposes | 179,033 |
| Secondary roads purposes | 1,930,976 |
| Debt service | 408,199 |
| Capital projects | 180,260 |
| Other purposes | 1,510,837 |
| Unrestricted | 2,165,354 |
| TOTAL NET POSITION | <u>43,336,585</u> |
| TOTAL | <u>\$ 61,771,721</u> |

See Notes to Financial Statements

CLAY COUNTY
STATEMENT OF ACTIVITIES
JUNE 30, 2016

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--|-------------------|------------------------|--|--|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | |
| | <u>Expenses</u> | | | | |
| FUNCTIONS/PROGRAMS: | | | | | |
| Government activities: | | | | | |
| Public safety and legal services | \$ 2,814,442 | \$ - | \$ - | \$ - | \$ (2,814,442) |
| Physical health and social services | 740,391 | - | - | - | (740,391) |
| Mental health | 334,920 | - | - | - | (334,920) |
| County environment and education | 1,403,774 | 69,137 | - | - | (1,334,637) |
| Roads and transportation | 5,004,481 | 68,954 | 4,509,481 | 149,782 | (276,264) |
| Governmental services to residents ... | 434,197 | 3,521 | - | - | (430,676) |
| Administration | 2,288,803 | 759,035 | - | - | (1,529,768) |
| Non-program | 399,726 | - | - | - | (399,726) |
| Interest on long-term debt | 290,444 | - | - | - | (290,444) |
| TOTAL | <u>13,711,178</u> | <u>900,647</u> | <u>4,509,481</u> | <u>149,782</u> | <u>(8,151,268)</u> |
| GENERAL REVENUES: | | | | | |
| Property and other county tax levied for: | | | | | |
| General purposes | | | | | 6,685,074 |
| Debt service | | | | | 409,917 |
| Penalty and interest on property tax | | | | | 38,063 |
| State tax credits and replacements | | | | | 560,834 |
| Local option sales tax | | | | | 921,889 |
| Grants and contributions not restricted to specific purposes | | | | | 467,916 |
| Unrestricted investment earnings | | | | | 103,000 |
| Other financing sources | | | | | 347,486 |
| Miscellaneous | | | | | 605,781 |
| TOTAL GENERAL REVENUES | | | | | <u>10,139,960</u> |
| CHANGE IN NET POSITION | | | | | <u>1,988,692</u> |
| NET POSITION - BEGINNING OF YEAR | | | | | <u>41,347,893</u> |
| NET POSITION - END OF YEAR | | | | | <u>\$ 43,336,585</u> |

**CLAY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

| | ASSETS | | | |
|--|---------------------|-------------------|---------------------|---------------------|
| | General | Mental Health | Special Revenue | |
| | | | Rural Services | Secondary Roads |
| Cash and pooled investments | \$ 3,182,570 | \$ 178,767 | \$ 266,196 | \$ 4,369,919 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 31,129 | 266 | 495 | - |
| Succeeding year | 4,237,000 | 371,000 | 1,918,000 | - |
| Accounts and drainage assessments | 104,024 | - | - | 529 |
| Notes and contracts | - | - | - | - |
| Accrued interest | 2,666 | - | - | - |
| Due from other governments | 104,902 | - | - | 11,654 |
| Inventories | - | - | - | 703,487 |
| Prepaid expenses | 10,842 | - | - | 12,728 |
| TOTAL ASSETS | <u>\$ 7,673,133</u> | <u>\$ 550,033</u> | <u>\$ 2,184,691</u> | <u>\$ 5,098,317</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 33,331 | \$ - | \$ 7,673 | \$ 1,820,248 |
| TOTAL LIABILITIES | <u>33,331</u> | <u>-</u> | <u>7,673</u> | <u>1,820,248</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable revenues: | | | | |
| Succeeding year property tax | 4,237,000 | 371,000 | 1,918,000 | - |
| Other | 30,587 | 243 | 451 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>4,267,587</u> | <u>371,243</u> | <u>1,918,451</u> | <u>-</u> |
| FUND BALANCES: | | | | |
| Nonspendable: | | | | |
| Inventories | - | - | - | 703,487 |
| Prepaid expenses | 10,842 | - | - | 12,728 |
| Restricted for: | | | | |
| Supplemental levy purposes | 383,385 | - | - | - |
| Mental health purposes | - | 178,790 | - | - |
| Rural services purposes | - | - | 258,567 | - |
| Secondary roads purposes | - | - | - | 2,561,854 |
| Drainage district purposes | - | - | - | - |
| Conservation land acquisition | - | - | - | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | - |
| Other purposes | 565 | - | - | - |
| Assigned to: | | | | |
| Government services center | 25,340 | - | - | - |
| Rural services | 1,007,489 | - | - | - |
| Other purposes | 408,472 | - | - | - |
| Unassigned | 1,536,122 | - | - | - |
| TOTAL FUND BALANCES | <u>3,372,215</u> | <u>178,790</u> | <u>258,567</u> | <u>3,278,069</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 7,673,133</u> | <u>\$ 550,033</u> | <u>\$ 2,184,691</u> | <u>\$ 5,098,317</u> |

| <u>Capital Projects</u> | <u>Nonmajor</u> | <u>Total</u> |
|-----------------------------|---------------------|----------------------|
| \$ 174,968 | \$ 870,314 | \$ 9,042,734 |
| - | 311 | 32,201 |
| - | 401,000 | 6,927,000 |
| 5,292 | 706,056 | 815,901 |
| - | 362,745 | 362,745 |
| - | 1,610 | 4,276 |
| - | - | 116,556 |
| - | - | 703,487 |
| - | - | 23,570 |
| <u>\$ 180,260</u> | <u>\$ 2,342,036</u> | <u>\$ 18,028,470</u> |

| | | |
|-------------|-------------|---------------------|
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,861,252</u> |
| - | - | 1,861,252 |

| | | |
|---|-----------|-----------|
| - | 401,000 | 6,927,000 |
| - | 1,060,386 | 1,091,667 |
| - | 1,461,386 | 8,018,667 |

| | | |
|----------------|----------------|------------------|
| - | - | 703,487 |
| - | - | 23,570 |
| - | - | 383,385 |
| - | - | 178,790 |
| - | - | 258,567 |
| - | - | 2,561,854 |
| - | 190,516 | 190,516 |
| 173,191 | - | 173,191 |
| - | 407,914 | 407,914 |
| 7,069 | - | 7,069 |
| - | 282,220 | 282,785 |
| - | - | 25,340 |
| - | - | 1,007,489 |
| - | - | 408,472 |
| - | - | 1,536,122 |
| <u>180,260</u> | <u>880,650</u> | <u>8,148,551</u> |

| | | |
|-------------------|---------------------|----------------------|
| <u>\$ 180,260</u> | <u>\$ 2,342,036</u> | <u>\$ 18,028,470</u> |
|-------------------|---------------------|----------------------|

CLAY COUNTY
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total governmental fund balances (page 16) \$ 8,148,551

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$55,135,943 and the accumulated depreciation is \$12,509,771. 42,626,172

Other long-term assets are not available to pay for current period expenditures and, therefore, are recognized as deferred inflows in the governmental funds. 1,091,667

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental fund, as follows:

| | | |
|--------------------------------------|------------------|---------|
| Deferred outflows of resources | \$1,117,079 | |
| Deferred inflows of resources | <u>(911,790)</u> | 205,289 |

Long-term liabilities, including notes payable, drainage warrants, compensated absences payable, net pension liability, and OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds. (8,735,094)

NET POSITION OF GOVERNMENTAL ACTIVITIES (page 13) \$43,336,585

CLAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| | | Special Revenue | | |
|--|---------------------|-------------------|--------------------|---------------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| REVENUES: | | | | |
| Property and other County tax | \$ 4,330,453 | \$ 378,739 | \$ 1,973,625 | \$ - |
| Local option sales tax | 829,700 | - | - | - |
| Interest and penalty on property tax | 38,063 | - | - | - |
| Intergovernmental | 790,059 | 34,624 | 166,710 | 4,651,779 |
| Licenses and permits | 16,217 | - | 1,350 | 19,075 |
| Charges for service | 558,951 | - | - | - |
| Use of money and property | 159,531 | - | - | 68,954 |
| Fines, forfeitures and defaults | 123,955 | - | - | - |
| Miscellaneous | 52,704 | - | 1,027 | - |
| TOTAL REVENUES | 6,899,633 | 413,363 | 2,142,712 | 4,739,808 |
| EXPENDITURES: | | | | |
| Operating: | | | | |
| Public safety and legal services | 2,272,899 | - | 580,695 | - |
| Physical health and social services | 740,391 | - | - | - |
| Mental health | 70,523 | 264,397 | - | - |
| County environment and education | 747,415 | - | 370,180 | - |
| Roads and transportation | - | - | - | 5,190,551 |
| Governmental services to residents | 428,797 | - | - | - |
| Administration | 2,026,399 | - | - | - |
| Nonprogram | - | - | - | - |
| Debt service | 44,250 | - | - | - |
| Capital projects | 13,498 | - | - | 2,898,131 |
| TOTAL EXPENDITURES | 6,344,172 | 264,397 | 950,875 | 8,088,682 |
| EXCESS (DEFICIENCY) OF REVENUES | | | | |
| OVER (UNDER) EXPENDITURES | 555,461 | 148,966 | 1,191,837 | (3,348,874) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Drainage warrants issued | - | - | - | - |
| Transfers in | - | - | - | 1,944,408 |
| Transfers out | (766,828) | - | (1,217,902) | - |
| TOTAL OTHER FINANCING | | | | |
| SOURCES (USES) | (766,828) | - | (1,217,902) | 1,944,408 |
| CHANGE IN FUND BALANCES | (211,367) | 148,966 | (26,065) | (1,404,466) |
| FUND BALANCES - BEGINNING OF YEAR | 3,583,582 | 29,824 | 284,632 | 4,682,535 |
| FUND BALANCES - END OF YEAR | \$ 3,372,215 | \$ 178,790 | \$ 258,567 | \$ 3,278,069 |

| <u>Capital Projects</u> | <u>Nonmajor</u> | <u>Total</u> |
|-----------------------------|-------------------|---------------------|
| \$ - | \$ 409,896 | \$ 7,092,713 |
| - | 92,189 | 921,889 |
| - | - | 38,063 |
| 298 | 52,206 | 5,695,676 |
| - | - | 36,642 |
| 76,554 | 3,521 | 639,026 |
| 41,834 | 77,374 | 347,693 |
| - | - | 123,955 |
| - | 262,782 | 316,513 |
| <u>118,686</u> | <u>897,968</u> | <u>15,212,170</u> |
| - | - | 2,853,594 |
| - | - | 740,391 |
| - | - | 334,920 |
| 251,186 | 99,311 | 1,468,092 |
| - | - | 5,190,551 |
| - | 3,474 | 432,271 |
| - | 7,927 | 2,034,326 |
| - | 353,384 | 353,384 |
| - | 613,842 | 658,092 |
| 84,889 | - | 2,996,518 |
| <u>336,075</u> | <u>1,077,938</u> | <u>17,062,139</u> |
| <u>(217,389)</u> | <u>(179,970)</u> | <u>(1,849,969)</u> |
| - | 347,486 | 347,486 |
| 40,322 | - | 1,984,730 |
| - | - | (1,984,730) |
| <u>40,322</u> | <u>347,486</u> | <u>347,486</u> |
| (177,067) | 167,516 | (1,502,483) |
| <u>357,327</u> | <u>713,134</u> | <u>9,651,034</u> |
| <u>\$ 180,260</u> | <u>\$ 880,650</u> | <u>\$ 8,148,551</u> |

CLAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Change in fund balances - total governmental funds (page 19) \$ (1,502,483)

*Amounts reported for governmental activities in the Statement of Activities
are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

| | | |
|---|--------------------|-----------|
| Expenditures for capital assets | \$4,168,245 | |
| Capital assets contributed by the Iowa Department of Transportation | 149,782 | |
| Depreciation expense | <u>(1,300,908)</u> | 3,017,119 |

Because some revenues will not be collected for several months after the County's year-end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:

| | | |
|---|-----------------|---------|
| Property tax and drainage assessments | 2,278 | |
| Notes and contracts | <u>(11,846)</u> | (9,568) |

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issues exceeded repayments, as follows:

| | | |
|--------------|----------------|---------|
| Issued | - | |
| Repaid | <u>321,306</u> | 321,306 |

| | |
|--|---------|
| The current year County employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. | 436,863 |
|--|---------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

| | | |
|---------------------------------------|------------------|------------------|
| Compensated absences (increase) | (20,000) | |
| Other postemployment benefits | (10,000) | |
| Pension expense | <u>(244,545)</u> | <u>(274,545)</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 14) \$ 1,988,692

CLAY COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2016

ASSETS

| | |
|----------------------------------|-----------------------|
| Cash and pooled investments: | |
| County Treasurer | \$ 1,446,712 |
| Other County officials | 108,203 |
| Property tax receivable: | |
| Delinquent | 17,514 |
| Succeeding year | 22,263,000 |
| Due from other governments | <u>137,780</u> |
| TOTAL ASSETS | <u>23,973,209</u> |

LIABILITIES

| | |
|--------------------------------|------------------------|
| Accounts payable | 847 |
| Due to other governments | 23,843,231 |
| Trusts payable | <u>129,131</u> |
| TOTAL LIABILITIES | <u>23,973,209</u> |
| NET POSITION | <u><u>\$ -</u></u> |

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clay County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Clay County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Clay County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units

The following component units are entities which are legally separate from the County but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Ninety-eight drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Clay County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Clay County Auditor's office.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Jointly Governed Organizations

The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoints representatives to the following boards and commissions: Clay County Assessor's Conference Board, Clay County Emergency Management Commission, Clay County Conservation Board, and Clay County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Position presents the County's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General Fund and Special Revenue, Rural Services Fund, and other revenues to be used for secondary road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned, and then unassigned fund balances.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Pooled Investments

The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Non-negotiable certificates of deposits are stated at cost.

Property Tax Receivable

Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Property Tax Receivable - Continued

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments, is based on January 1, 2014 assessed property valuations, is for the tax accrual period July 1, 2015 through June 30, 2016, and reflects the tax asking contained in the budget certified by the County Board of Supervisors March 2015.

Drainage Assessments Receivable

Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than three nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Deferred inflows of resources related to drainage assessments represent remaining assessments which are payable but not yet due.

Due from Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased.

Notes and Contracts Receivable - Long-term receivables in a governmental fund are reported on the respective balance sheet. These receivables are recognized in the current period to the extent they are considered available spendable resources. Deferred inflows of resources related to notes and contracts represent remaining receivables not considered available spendable resources.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets acquired after July 1, 2002 (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Infrastructure | \$50,000 |
| Land, buildings, and improvements | 25,000 |
| Equipment and vehicles | 5,000 |

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------|--|
| Buildings | 40 - 50 |
| Building improvements | 20 - 50 |
| Infrastructure | 10 - 65 |
| Equipment | 2 - 20 |
| Vehicles | 3 - 10 |

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the County after the measurement date but before the end of the County's reporting period.

Due to Other Governments

Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable

Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Compensated Absences

County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and the Special Revenue, Secondary Roads Funds.

County employees accumulate a limited amount of earned but unused sick leave. The employee does not receive any pay for unused sick leave upon termination of employment with the County. Since the amount of sick leave to be used is undeterminable, no liability has been accrued.

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. In the government fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Fund Equity

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through ordinance or resolution approved prior to yearend. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the Board of Supervisors intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the non-program function.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management's Review

The County has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2016 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The County has invested \$657,800 in unrated drainage warrants.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

| <u>Transfer to</u> | <u>Amount</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|--------------------|----------------------|--------------------|
| Special Revenue: | | | |
| Secondary Roads | \$1,944,408 | General | \$ 726,506 |
| | | Special Revenue: | |
| | | Rural Services | 1,217,902 |
| Capital Projects | <u>40,322</u> | General | <u>40,322</u> |
| Total Transfers | <u>\$1,984,730</u> | | <u>\$1,984,730</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. NOTES AND CONTRACTS RECEIVABLE

Clay County has established a Revolving Loan Fund through cumulative net transfers of \$500,000 from local option sales tax revenues. Through June 30, 2016, the County made \$938,129 in advances to twenty-one local businesses, with a promissory note and applicable contractual loan agreements and documentation completed for each advance. With payments including interest at 4.75%, the promissory notes were originally payable in 60 to 180 monthly installments, with four loans paid in full through 2016 and remaining loans set to mature in 2018 through 2027. The County is attempting to collect the remaining \$65,816 balance on one loan with an original advance of \$100,000 which is no longer paying under the original repayment terms. The County was unable to collect the remaining \$66,092 balance on two loans with original advances totaling \$86,134. Since collection of the remaining balances is uncertain, the balances are no longer included in the total notes receivable balance. Therefore, after adjusting for these loans, the outstanding balances on the fourteen remaining loans totaled \$362,745 at June 30, 2016.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

| | Balance Beginning of year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|--------------------|----------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,931,866 | \$ 113,886 | | \$ 2,045,752 |
| Construction in progress | | <u>1,738,170</u> | | <u>1,738,170</u> |
| Total capital assets not being depreciated | <u>1,931,866</u> | <u>1,852,056</u> | | <u>3,783,922</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 12,805,175 | 35,000 | | 12,840,175 |
| Equipment and vehicles | 8,516,663 | 615,758 | \$186,310 | 8,946,111 |
| Infrastructure, road network | 27,065,290 | 1,815,213 | | 28,880,503 |
| Infrastructure, drainage network | <u>685,232</u> | | | <u>685,232</u> |
| Total capital assets being depreciated | <u>49,072,360</u> | <u>2,465,971</u> | <u>186,310</u> | <u>51,352,021</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 2,769,513 | 311,894 | | 3,081,407 |
| Equipment and vehicles | 6,084,486 | 430,978 | 186,310 | 6,329,154 |
| Infrastructure, road network | 2,512,624 | 544,331 | | 3,056,955 |
| Infrastructure, drainage network | <u>28,550</u> | <u>13,705</u> | | <u>42,255</u> |
| Total accumulated depreciation | <u>11,395,173</u> | <u>1,300,908</u> | <u>186,310</u> | <u>12,509,771</u> |
| Total capital assets being depreciated - net | <u>37,677,187</u> | <u>1,165,063</u> | | <u>38,842,250</u> |
| Governmental activities capital assets - net | <u>\$39,609,053</u> | <u>\$3,017,119</u> | | <u>\$42,626,172</u> |

Depreciation expense was charged to the following functions:

| | |
|--|--------------------|
| Governmental activities: | |
| Public safety and legal services | \$ 42,827 |
| County environment and education | 51,433 |
| Roads and transportation | 865,382 |
| Governmental services to residents | 1,926 |
| Administration | <u>339,340</u> |
| Total depreciation expense - governmental activities | <u>\$1,300,908</u> |

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

6. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agency for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due other governments at June 30, 2016 is as follows:

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|----------------------------------|--------------------|----------------------------|
| Agency: | | |
| Townships | Collections | \$ 287,708 |
| Corporations | Collections | 7,067,749 |
| Schools | Collections | 13,542,654 |
| Community colleges | Collections | 1,020,718 |
| Agricultural extension education | Collections | 230,744 |
| Auto license and use tax | Collections | 434,123 |
| All others | Collections | <u>1,259,535</u> |
| TOTAL FOR AGENCY FUNDS | | <u>\$23,843,231</u> |

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

| | <u>General Obligation Bonds/Notes</u> | <u>Drainage Warrants</u> | <u>Compensated Absences</u> | <u>Net Pension Liability</u> | <u>Net OPEB Liability</u> | <u>Total</u> |
|---------------------------|---|------------------------------|---------------------------------|--------------------------------------|-----------------------------------|--------------------|
| Balance beginning of year | \$5,662,048 | \$404,884 | \$132,000 | \$1,767,689 | \$132,000 | \$8,098,621 |
| Increases..... | | 350,722 | 20,000 | 625,774 | 10,000 | 1,006,496 |
| Decreases | <u>(323,681)</u> | <u>(46,342)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(370,023)</u> |
| Balance end of year | <u>\$5,338,367</u> | <u>\$709,264</u> | <u>\$152,000</u> | <u>\$2,393,463</u> | <u>\$142,000</u> | <u>\$8,735,094</u> |
| Due within one year | <u>\$ 319,432</u> | <u>-</u> | <u>\$152,000</u> | <u>-</u> | <u>-</u> | <u>\$ 471,432</u> |

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

7. LONG-TERM LIABILITIES - Continued

Bonds/Notes Payable

A summary of the County's June 30, 2016 general obligation bonds/notes payable is as follows:

| <u>Year Ending June 30,</u> | <u>Rates</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------|--------------------|--------------------|--------------------|
| 2017 | 1.94% - 4.05% | \$ 319,432 | \$ 172,566 | \$ 491,998 |
| 2018 | 1.94% - 4.05% | 320,197 | 164,661 | 484,858 |
| 2019 | 1.94% - 4.05% | 330,976 | 157,521 | 488,497 |
| 2020 | 1.94% - 4.05% | 336,771 | 148,551 | 485,322 |
| 2021 | 1.94% - 4.05% | 347,582 | 140,218 | 487,800 |
| 2022 - 2026 | 1.94% - 4.05% | 1,703,409 | 552,307 | 2,255,716 |
| 2027 - 2030 | 3.75% - 4.05% | <u>1,980,000</u> | <u>239,105</u> | <u>2,219,105</u> |
| Total | | <u>\$5,338,367</u> | <u>\$1,574,929</u> | <u>\$6,913,296</u> |

During the year ended June 30, 2016, the County issued no new general obligation bonds and retired \$323,681 of notes.

Drainage Warrants Payable

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented. Warrants will be paid as funds are available and have been deducted from cash balances. Drainage warrants are paid from the Special Revenue, Drainage District Fund solely from special assessments against benefited properties.

Clay County Regional Events Center Conduit Debt Obligations

During the year ended June 30, 2016, the County issued a total of \$2,325,000 in Local Option Sales and Services Tax (LOSST) Revenue Bonds for refinancing outstanding debt obligations and for funding Clay County Fair construction and improvements. Of the total advanced, \$1,325,000 was used to pay off a similar bond which had been issued in fiscal 2005 for the purpose of constructing and furnishing the Clay County Regional Events Center at the Clay County Fairgrounds. The bonds are not a general obligation of the County but are payable from and secured solely and only by a pledge of certain local option tax revenues received by Clay County and the City of Spencer. The bonds will be repaid in annual installments ranging from \$35,000 to \$169,000, including interest at 4.15%, through June 1, 2040. Bonds totaling \$2,287,000 remained outstanding at June 30, 2016.

The bonds issued do not constitute general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. However, the County is responsible to receive the applicable local option tax revenues and to apply funds on hand to the required bond payments, as shown in the LOSST Bond special revenue fund. There has not been and is not any condition of default under the bonds or the related financing documents.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

7. LONG-TERM LIABILITIES - Continued

St. Luke Homes and Services, Inc. Conduit Debt Obligation

During September 2004, the County issued \$3,000,000 Health Care Facility Revenue Bonds, Series 2004 (St. Luke Homes and Services, Inc. Project) for the purpose of lending the proceeds to St. Luke Homes and Services, Inc. for facility improvement projects. The bonds are not a general obligation of the County but are payable solely from the revenues and other amounts derived from the facility. Bonds totaling approximately \$2,100,000 remained outstanding at June 30, 2016.

The bonds issued do not constitute general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

8. LEASES

The County has entered into leases of office space to other governmental entities through June 30, 2017 totaling \$89,184 annually. The County has also entered into annual leases of farm ground to various individuals, with lease expirations in February 2017 and total annual revenue of \$34,160.

The County leases storage through August 2020 for \$1,500 per month and a commons area and office space on a month to month basis for \$2,565 per month. Future minimum lease payments are \$18,000 per year for each of the fiscal years ending June 30, 2017 through 2020 and \$3,000 for the fiscal year ending June 30, 2021, resulting in total future minimum lease payments of \$75,000.

9. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the County, except for those covered by another retirement system. Employees of the County are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, IA 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

9. PENSION PLAN - Continued

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Sheriffs, deputies, and protection occupation members may retire at normal retirement age, which is generally age 55. Sheriffs, deputies, and protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a sheriff's, deputy's, or protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

9. PENSION PLAN - Continued

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the County contributed 8.93% of covered payroll, for a total rate of 14.88%. The sheriff, deputies, and the County each contributed 9.88% of covered payroll, for a total rate of 19.76%. Protection occupation members contributed 6.56% of covered payroll and the County contributed 9.84% of covered payroll, for a total rate of 16.40%.

The County's total contributions to IPERS for the year ended June 30, 2016 totaled \$436,863.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the County reported a liability of \$2,393,463 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the County's collective proportion was 0.0484459%, which was an increase of 0.003874 % from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County recognized pension expense of \$244,545. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 36,357 | \$ 36,236 |
| Changes of assumptions | 66,254 | 22,102 |
| Net difference between projected and actual earnings on IPERS' investments | 542,180 | 836,049 |
| Changes in proportion and differences between County contributions and the County's proportionate share of contributions | 35,425 | 17,403 |
| County contributions subsequent to the measurement date .. | <u>436,863</u> | |
| TOTAL | <u>\$1,117,079</u> | <u>\$911,790</u> |

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

9. PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued - \$436,863 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended</u> <u>June 30,</u> | <u>Total</u> |
|--------------------------------------|---------------------|
| 2017 | \$ (125,101) |
| 2018 | (125,101) |
| 2019 | (125,101) |
| 2020 | 142,895 |
| 2021 | <u>834</u> |
| | <u>\$ (231,574)</u> |

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

| | |
|--|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00%, average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50%, compounded annually, net of investment expense, including inflation. |
| Wage Growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

9. PENSION PLAN - Continued

Actuarial Assumptions - Continued

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | <u>1</u> | (0.71) |
| Total | <u>100%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

| | <u>1% Decrease (6.5%)</u> | <u>Discount Rate (7.5%)</u> | <u>1% Increase (8.5%)</u> |
|---|-----------------------------------|-------------------------------------|-----------------------------------|
| County's proportionate share of the net pension liability | \$5,029,696 | \$2,393,463 | \$ 170,920 |

Pension Plan Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2016.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The County sponsors a single-employer health care plan which provides medical/prescription drug benefits for all active and retired employees and their eligible dependents. There are 97 active and 12 retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

Contributions are required for both retiree and dependent coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by monthly contributions.

The medical/prescription drug coverage is provided through a partially self-funded plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the approximate components of the County's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

| | |
|--|-------------------------|
| Annual required contribution | \$ 34,000 |
| Interest on net OPEB obligation | 6,000 |
| Adjustment to annual required contribution | <u>(8,000)</u> |
| Annual OPEB cost | 32,000 |
| Contributions made | <u>(22,000)</u> |
| Increase in net OPEB obligation | 10,000 |
| Net OPEB obligation - beginning of year | <u>132,000</u> |
| Net OPEB obligation - end of year | <u><u>\$142,000</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the County contributed \$22,000 to the medical plan. Plan members eligible for benefits contributed approximately \$59,000 or 73% of the premium costs.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Annual OPEB Cost and Net OPEB Obligation - Continued - The County's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and net OPEB obligation are summarized as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-----------------------------|---|------------------------------------|
| June 30, 2014 | \$ 36,000 | 61.1% | \$118,000 |
| June 30, 2015 | 36,000 | 61.1% | 132,000 |
| June 30, 2016 | 32,000 | 68.8% | 142,000 |

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was approximately \$279,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$279,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,458,000 and the ratio of the UAAL to covered payroll was 6.26%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2015 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 5%.

Mortality rates are from the RP2014 Mortality Tables. Annual retirement and termination probabilities were developed from the Scale T-4 of the Actuary's Pension Handbook.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Actuarial Methods and Assumptions - Continued - Projected claim costs of the medical plan are approximately \$680 per month per participant. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expenses on an open basis over 30 years.

11. RISK MANAGEMENT

The County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's members' contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2016 were \$146,187.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

11. RISK MANAGEMENT - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss, or series of claims or losses exceeds the amount of risk-sharing protection provided by the County's risk-sharing certificate, or in the event a casualty claim, property loss, or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been recorded in the County's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The County also carries commercial insurance from other insurers for coverage associated with workers' compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Health Care Plan

The County has established a Health Care Plan to provide partial self-funding of the County's health insurance benefit plan. The plan is funded by County and employee contributions and is administered through a service agreement with Employee Benefit Systems (EBS). The agreement with EBS is renewable on an annual basis. The County assumes liability for certain claims up to the individual deduction limitations for single and family coverage depending on which of four optional plans is selected by each respective employee.

Contributions to the Health Care Plan are recorded as expenditures from the operating funds. The County's contribution to the self-funded portion of the Health Care Plan for the year ended June 30, 2016 was approximately \$118,000.

No amounts payable to the Health Care Plan have been recorded at June 30, 2016 for incurred but not reported (IBNR) and reported but not paid claims since the amounts are not considered material to the financial statements. Incurred claims (including claims incurred but not reported at June 30, 2016) were considered to approximately equal the payments on claims during the fiscal year of approximately \$120,000.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

12. COMMITMENTS

The County has entered into construction contracts totaling approximately \$4,300,000 for roadway paving and bridge maintenance. As of June 30, 2016, costs of approximately \$1,700,000 have been incurred on the projects. The balance of approximately \$2,600,000 remaining on the contracts at June 30, 2016 will be paid as work on the projects progresses with the contracts expected to be paid from County funds and the State of Iowa Farm to Market Fund.

The County has contracted with the City of Spencer for sanitary landfill services. The current contract expires June 30, 2017, with a contracted cost for fiscal 2017 of \$90,024.

The County has also contracted with Spencer Hospital for management of public health services. Established costs call for total annual payments of \$200,000 for each of the fiscal years ending June 30, 2017, 2018, and 2019.

13. LITIGATION

The County is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. County officials believe the outcome of these matters will not have a material adverse effect on the County's financial statements.

14. SUBSEQUENT EVENT

During August 2016, the County authorized the issuance of \$4,395,000 General Obligation Refunding Bonds, Series 2016 A for the purpose of advance refunding all outstanding General Obligation Bonds, Series 2011 A.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

15. CLAY COUNTY FINANCIAL INFORMATION INCLUDED IN NORTHWEST IOWA CARES CONNECTIONS

Northwest Iowa Cares Connections (NWIACC), a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective July 10, 2014, includes the following member counties: Clay, Dickinson, Lyon, O'Brien, Osceola, and Palo Alto. The financial activity of Clay County's Special Revenue, Mental Health Fund is included in NWIACC for the year ended June 30, 2016 as follows:

Revenues:

| | |
|-------------------------------------|----------------|
| Property and other county tax | \$ 378,739 |
| Intergovernmental | <u>34,624</u> |
| Total Revenues | <u>413,363</u> |

Expenditures:

| | |
|---|----------------|
| General administration: | |
| Direct administration | 80,542 |
| Distribution to regional fiscal agent | <u>183,855</u> |
| Total Expenditures | <u>264,397</u> |

| | |
|--|---------|
| Excess of revenues over expenditures | 148,966 |
|--|---------|

| | |
|--|---------------|
| Fund balance - beginning of the year | <u>29,824</u> |
|--|---------------|

| | |
|----------------------------|-------------------|
| FUND BALANCE - END OF YEAR | <u>\$ 178,790</u> |
|----------------------------|-------------------|

REQUIRED SUPPLEMENTARY INFORMATION

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

| | <u>Actual</u> | Less Funds not Required to be <u>Budgeted</u> | <u>Net</u> |
|---|---------------------|---|---------------------|
| RECEIPTS: | | | |
| Property and other County tax | \$ 8,010,390 | \$ - | \$ 8,010,390 |
| Interest and penalty on property tax | 38,063 | - | 38,063 |
| Intergovernmental | 5,742,869 | - | 5,742,869 |
| Licenses and permits | 40,037 | - | 40,037 |
| Charges for service | 638,734 | - | 638,734 |
| Use of money and property | 375,180 | 404 | 374,776 |
| Other | 420,590 | 255,583 | 165,007 |
| TOTAL RECEIPTS | <u>15,265,863</u> | <u>255,987</u> | <u>15,009,876</u> |
| DISBURSEMENTS: | | | |
| Public safety and legal services | 2,867,670 | - | 2,867,670 |
| Physical health and social services | 751,313 | - | 751,313 |
| Mental health | 350,235 | - | 350,235 |
| County environment and education | 1,602,516 | 110,902 | 1,491,614 |
| Roads and transportation | 4,936,662 | - | 4,936,662 |
| Governmental services to residents | 430,659 | - | 430,659 |
| Administration | 1,878,092 | - | 1,878,092 |
| Non-program | 213,257 | 52,234 | 161,023 |
| Debt service | 500,848 | - | 500,848 |
| Capital projects | 1,454,143 | - | 1,454,143 |
| TOTAL DISBURSEMENTS | <u>14,985,395</u> | <u>163,136</u> | <u>14,822,259</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 280,468 | 92,851 | 187,617 |
| BALANCE - BEGINNING OF YEAR | <u>8,762,266</u> | <u>340,425</u> | <u>8,421,841</u> |
| BALANCE - END OF YEAR | <u>\$ 9,042,734</u> | <u>\$ 433,276</u> | <u>\$ 8,609,458</u> |

| Budgeted Amounts | | Final to |
|---------------------|---------------------|------------------------|
| <u>Original</u> | <u>Final</u> | Net <u>Variance</u> |
| \$ 8,072,519 | \$ 8,073,567 | \$ (63,177) |
| 36,900 | 36,900 | 1,163 |
| 4,628,295 | 4,762,925 | 979,944 |
| 19,076 | 19,076 | 20,961 |
| 533,860 | 536,385 | 102,349 |
| 318,027 | 322,586 | 52,190 |
| 256,454 | 338,676 | (173,669) |
| <u>13,865,131</u> | <u>14,090,115</u> | <u>919,761</u> |
| 2,903,107 | 2,965,974 | 98,304 |
| 794,288 | 832,072 | 80,759 |
| 542,899 | 542,899 | 192,664 |
| 1,521,382 | 1,634,098 | 142,484 |
| 5,437,184 | 5,437,184 | 500,522 |
| 454,767 | 455,378 | 24,719 |
| 1,752,712 | 1,968,530 | 90,438 |
| | 70,500 | (90,523) |
| 500,348 | 500,848 | - |
| <u>3,135,150</u> | <u>3,212,936</u> | <u>1,758,793</u> |
| <u>17,041,837</u> | <u>17,620,419</u> | <u>2,798,160</u> |
| (3,176,706) | (3,530,304) | <u>\$ 3,717,921</u> |
| <u>6,792,648</u> | <u>6,792,648</u> | |
| <u>\$ 3,615,942</u> | <u>\$ 3,262,344</u> | |

See Accompanying Independent Auditors' Report

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

| | Governmental Funds | | |
|---|-----------------------------|--------------------------------------|---|
| | <u>Cash</u> <u>Basis</u> | <u>Accrual</u> <u>Adjustments</u> | <u>Modified</u> <u>Accrued</u> <u>Basis</u> |
| Revenues and other financing sources..... | \$ 15,265,863 | \$ (53,693) | \$ 15,212,170 |
| Expenditures | <u>14,985,395</u> | <u>(2,076,744)</u> | <u>17,062,139</u> |
| Net | 280,468 | (2,130,437) | (1,849,969) |
| Other financing sources, net | - | 347,486 | 347,486 |
| Beginning fund balances | <u>8,762,266</u> | <u>888,768</u> | <u>9,651,034</u> |
| ENDING FUND BALANCES | <u>\$ 9,042,734</u> | <u>\$ (894,183)</u> | <u>\$ 8,148,551</u> |

See Accompanying Independent Auditors' Report

CLAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$578,582. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the non-program function.

CLAY COUNTY
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO FISCAL YEARS*
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| County's proportion of the net pension liability | 0.0484459% | 0.0445719% |
| County's proportionate share of the net pension liability | \$ 2,393 | \$ 1,789 |
| County's covered-employee payroll | \$ 4,657 | \$ 4,501 |
| County's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 51.39% | 39.75% |
| Plan fiduciary net position as a percentage of the total pension liability | 85.19% | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

CLAY COUNTY
SCHEDULE OF COUNTY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contributions | \$ 437 | \$ 435 | \$ 415 | \$ 384 |
| Contributions in relation to the statutorily required contribution | <u>(437)</u> | <u>(435)</u> | <u>(415)</u> | <u>(384)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| County's covered-employee payroll | \$ 4,751 | \$ 4,657 | \$ 4,501 | \$ 4,272 |
| Contributions as a percentage of covered-employee payroll | 9.20% | 9.34% | 9.22% | 8.99% |

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 332 | \$ 293 | \$ 262 | \$ 249 | \$ 212 | \$ 212 |
| <u>(332)</u> | <u>(293)</u> | <u>(262)</u> | <u>(249)</u> | <u>(212)</u> | <u>(212)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 3,890 | \$ 3,656 | \$ 3,561 | \$ 3,553 | \$ 3,285 | \$ 3,236 |
| 8.53% | 8.01% | 7.35% | 7.00% | 6.45% | 6.55% |

CLAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of Benefit Terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of Assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

CLAY COUNTY
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---------------------------|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|---|
| 2010 | July 1, 2009 | - | \$ 417 | \$ 417 | 0.00% | \$3,436 | 12.14% |
| 2011 | July 1, 2009 | - | 417 | 417 | 0.00 | 3,932 | 10.60 |
| 2012 | July 1, 2009 | - | 417 | 417 | 0.00 | 3,952 | 10.55 |
| 2013 | July 1, 2012 | - | 336 | 336 | 0.00 | 4,343 | 7.74 |
| 2014 | July 1, 2012 | - | 336 | 336 | 0.00 | 4,579 | 7.34 |
| 2015 | July 1, 2012 | - | 336 | 336 | 0.00 | 4,741 | 7.09 |
| 2016 | July 1, 2015 | - | 279 | 279 | 0.00 | 4,458 | 6.26 |

See Note 10 in the accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

SUPPLEMENTARY INFORMATION

**CLAY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

ASSETS

| | <u>Debt Service</u> | <u>County Sheriff</u> | <u>LOSST Bond</u> |
|-----------------------------------|-------------------------|---------------------------|-----------------------|
| Cash and pooled investments | \$ 164,967 | \$ 45,701 | \$ 242,769 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 311 | - | - |
| Succeeding year | 401,000 | - | - |
| Accounts | - | - | - |
| Notes and contracts | - | - | - |
| Accrued interest | 88 | 1 | 64 |
| Drainage assessments | - | - | - |
| TOTAL ASSETS | <u>\$ 566,366</u> | <u>\$ 45,702</u> | <u>\$ 242,833</u> |

DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

DEFERRED INFLOWS OF RESOURCES:

| | | | |
|--|----------------|----------|----------|
| Unavailable revenues: | | | |
| Succeeding year property tax | \$ 401,000 | \$ - | \$ - |
| Other | <u>285</u> | <u>-</u> | <u>-</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>401,285</u> | <u>-</u> | <u>-</u> |

FUND BALANCES:

| | | | |
|---|-------------------|------------------|-------------------|
| Restricted for: | | | |
| Drainage warrants | - | - | - |
| Debt service | 165,081 | - | 242,833 |
| Other purposes | <u>-</u> | <u>45,702</u> | <u>-</u> |
| TOTAL FUND BALANCES | <u>165,081</u> | <u>45,702</u> | <u>242,833</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 566,366</u> | <u>\$ 45,702</u> | <u>\$ 242,833</u> |

| Special Revenue | | | | | |
|---|---|-------------------------------|---------------------------|-----------------------|---------------------|
| <u>Resources Enhancement and Protection</u> | <u>County Recorder's Records Management</u> | <u>Drainage Districts</u> | <u>Revolving Loan</u> | <u>LOSST Fair</u> | <u>Total</u> |
| \$ 65,354 | \$ 8,290 | \$ 190,507 | \$ 152,726 | \$ - | \$ 870,314 |
| - | - | - | - | - | 311 |
| - | - | - | - | - | 401,000 |
| - | 1,093 | - | - | 7,607 | 8,700 |
| - | - | - | 362,745 | - | 362,745 |
| 7 | - | 9 | 1,441 | - | 1,610 |
| - | - | 697,356 | - | - | 697,356 |
| <u>\$ 65,361</u> | <u>\$ 9,383</u> | <u>\$ 887,872</u> | <u>\$ 516,912</u> | <u>\$ 7,607</u> | <u>\$ 2,342,036</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 401,000 |
| - | - | 697,356 | 362,745 | - | 1,060,386 |
| | | | | | |
| - | - | 697,356 | 362,745 | - | 1,461,386 |
| | | | | | |
| - | - | 190,516 | - | - | 190,516 |
| - | - | - | - | - | 407,914 |
| 65,361 | 9,383 | - | 154,167 | 7,607 | 282,220 |
| 65,361 | 9,383 | 190,516 | 154,167 | 7,607 | 880,650 |
| <u>\$ 65,361</u> | <u>\$ 9,383</u> | <u>\$ 887,872</u> | <u>\$ 516,912</u> | <u>\$ 7,607</u> | <u>\$ 2,342,036</u> |

CLAY COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| | <u>Debt</u> <u>Service</u> | <u>County</u> <u>Sheriff</u> | <u>LOSST</u> <u>Bond</u> |
|--|-------------------------------|---------------------------------|-----------------------------|
| REVENUES: | | | |
| Property and other County tax | \$ 409,896 | \$ - | \$ - |
| Local option sales tax | - | - | - |
| Intergovernmental | 37,357 | - | - |
| Charges for service | - | - | - |
| Use of money and property | 1,982 | 22 | 440 |
| Miscellaneous | <u>-</u> | <u>6,750</u> | <u>201,304</u> |
| TOTAL REVENUES | <u>449,235</u> | <u>6,772</u> | <u>201,744</u> |
| EXPENDITURES: | | | |
| Operating: | | | |
| County environment and education | - | - | - |
| Governmental services to residents | - | - | - |
| Administration | - | 7,927 | - |
| Nonprogram | - | - | - |
| Debt service | <u>456,598</u> | <u>-</u> | <u>110,902</u> |
| TOTAL EXPENDITURES | <u>456,598</u> | <u>7,927</u> | <u>110,902</u> |
| OTHER FINANCING SOURCES: | | | |
| Drainage warrants issued | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN FUND BALANCES | (7,363) | (1,155) | 90,842 |
| FUND BALANCES - BEGINNING OF YEAR | <u>172,444</u> | <u>46,857</u> | <u>151,991</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 165,081</u> | <u>\$ 45,702</u> | <u>\$ 242,833</u> |

| Special Revenue | | | | | |
|---|---|-------------------------------|---------------------------|-----------------------|-------------------|
| <u>Resources Enhancement and Protection</u> | <u>County Recorder's Records Management</u> | <u>Drainage Districts</u> | <u>Revolving Loan</u> | <u>LOSST Fair</u> | <u>Total</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 409,896 |
| - | - | - | - | 92,189 | 92,189 |
| 14,849 | - | - | - | - | 52,206 |
| - | 3,521 | - | - | - | 3,521 |
| 71 | 5 | - | 74,854 | - | 77,374 |
| - | - | 54,288 | 440 | - | 262,782 |
| <u>14,920</u> | <u>3,526</u> | <u>54,288</u> | <u>75,294</u> | <u>92,189</u> | <u>897,968</u> |
| 5,912 | - | - | 1,580 | 91,819 | 99,311 |
| - | 3,474 | - | - | - | 3,474 |
| - | - | - | - | - | 7,927 |
| - | - | 353,384 | - | - | 353,384 |
| - | - | 46,342 | - | - | 613,842 |
| <u>5,912</u> | <u>3,474</u> | <u>399,726</u> | <u>1,580</u> | <u>91,819</u> | <u>1,077,938</u> |
| - | - | 347,486 | - | - | 347,486 |
| - | - | 347,486 | - | - | 347,486 |
| 9,008 | 52 | 2,048 | 73,714 | 370 | 167,516 |
| <u>56,353</u> | <u>9,331</u> | <u>188,468</u> | <u>80,453</u> | <u>7,237</u> | <u>713,134</u> |
| <u>\$ 65,361</u> | <u>\$ 9,383</u> | <u>\$ 190,516</u> | <u>\$ 154,167</u> | <u>\$ 7,607</u> | <u>\$ 880,650</u> |

CLAY COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2016

| ASSETS | County Offices | Townships | Corporations | Schools | Community Colleges |
|----------------------------------|-------------------|-------------------|--------------------|----------------------|-----------------------|
| CASH AND POOLED INVESTMENTS: | | | | | |
| County Treasurer | \$ 216,791 | \$ 2,656 | \$ 96,419 | \$ 146,559 | \$ 11,043 |
| Other County officials | 108,203 | - | - | - | - |
| RECEIVABLES: | | | | | |
| Property tax: | | | | | |
| Delinquent | 206 | 52 | 7,330 | 9,095 | 675 |
| Succeeding year | 304,000 | 285,000 | 6,964,000 | 13,387,000 | 1,009,000 |
| Due from other governments | 1,086 | - | - | - | - |
| TOTAL ASSETS | <u>\$ 630,286</u> | <u>\$ 287,708</u> | <u>\$7,067,749</u> | <u>\$ 13,542,654</u> | <u>\$ 1,020,718</u> |
| LIABILITIES | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 847 | \$ - | \$ - | \$ - | \$ - |
| Due to other governments | 500,308 | 287,708 | 7,067,749 | 13,542,654 | 1,020,718 |
| Trusts payable | 129,131 | - | - | - | - |
| TOTAL LIABILITIES | <u>\$ 630,286</u> | <u>\$ 287,708</u> | <u>\$7,067,749</u> | <u>\$ 13,542,654</u> | <u>\$ 1,020,718</u> |

Schedule 3

| <u>Agricultural Extension Education</u> | <u>Auto License and Use Tax</u> | <u>Other</u> | <u>Total</u> |
|---|---|------------------|---------------------|
| \$ 2,590 | \$ 434,123 | \$ 536,531 | \$ 1,446,712 |
| - | - | - | 108,203 |
| 154 | - | 2 | 17,514 |
| 228,000 | - | 86,000 | 22,263,000 |
| - | - | 136,694 | 137,780 |
| <u>\$ 230,744</u> | <u>\$434,123</u> | <u>\$759,227</u> | <u>\$23,973,209</u> |
| \$ - | \$ - | \$ - | \$ 847 |
| 230,744 | 434,123 | 759,227 | 23,843,231 |
| - | - | - | 129,131 |
| <u>\$ 230,744</u> | <u>\$434,123</u> | <u>\$759,227</u> | <u>\$23,973,209</u> |

CLAY COUNTY
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2016

| | <u>County Offices</u> | <u>Townships</u> | <u>Corporations</u> | <u>Schools</u> | <u>Community Colleges</u> |
|---|---------------------------|--------------------------|----------------------------|-----------------------------|-------------------------------|
| BALANCE - BEGINNING OF YEAR | <u>\$ 616,386</u> | <u>\$ 275,813</u> | <u>\$ 6,367,321</u> | <u>\$ 12,497,347</u> | <u>\$ 953,924</u> |
| ADDITIONS: | | | | | |
| Property and other County tax | 291,085 | 273,364 | 6,526,382 | 12,829,470 | 968,896 |
| 911 surcharge | - | - | - | - | - |
| State tax credits | 26,324 | 13,379 | 759,323 | 1,129,928 | 83,102 |
| Office fees and collections | 749,090 | - | - | - | - |
| Auto licenses, use tax and postage | - | - | - | - | - |
| Assessments | - | - | - | - | - |
| Trusts | 752,005 | - | - | - | - |
| Miscellaneous | <u>1,110,260</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL ADDITIONS | <u>2,928,764</u> | <u>286,743</u> | <u>7,285,705</u> | <u>13,959,398</u> | <u>1,051,998</u> |
| DEDUCTIONS: | | | | | |
| Agency remittances: | | | | | |
| To other funds | 281,152 | - | - | - | - |
| To other governments | 409,180 | 274,848 | 6,585,277 | 12,914,091 | 985,204 |
| Trusts paid out | <u>2,224,532</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL DEDUCTIONS | <u>2,914,864</u> | <u>274,848</u> | <u>6,585,277</u> | <u>12,914,091</u> | <u>985,204</u> |
| BALANCE - END OF YEAR | <u><u>\$ 630,286</u></u> | <u><u>\$ 287,708</u></u> | <u><u>\$ 7,067,749</u></u> | <u><u>\$ 13,542,654</u></u> | <u><u>\$ 1,020,718</u></u> |

Schedule 4

| <u>Agriculture Extension Education</u> | <u>Auto License and Use Tax</u> | <u>Other</u> | <u>Total</u> |
|--|---|-------------------|----------------------|
| \$ 224,681 | \$ 424,383 | \$ 546,581 | \$ 21,906,436 |
| 219,024 | - | 82,433 | 21,190,654 |
| - | - | - | - |
| 19,473 | - | 22,984 | 2,054,513 |
| - | - | - | 749,090 |
| - | 5,583,488 | - | 5,583,488 |
| - | - | 132,545 | 132,545 |
| - | - | - | 752,005 |
| - | - | 535,339 | 1,645,599 |
| <u>238,497</u> | <u>5,583,488</u> | <u>773,301</u> | <u>32,107,894</u> |
| - | - | - | 281,152 |
| 232,434 | 5,573,748 | 355,597 | 27,330,379 |
| - | - | 205,058 | 2,429,590 |
| <u>232,434</u> | <u>5,573,748</u> | <u>560,655</u> | <u>30,041,121</u> |
| <u>\$ 230,744</u> | <u>\$ 434,123</u> | <u>\$ 759,227</u> | <u>\$ 23,973,209</u> |

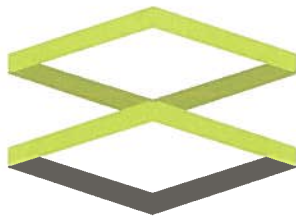
See Accompanying Independent Auditors' Report

CLAY COUNTY
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS
YEAR ENDED JUNE 30, 2016

| | Modified Accrual Basis | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
| REVENUES: | | | | | |
| Property and other County tax | \$ 7,092,713 | \$ 7,070,911 | \$ 7,066,516 | \$ 6,884,520 | \$ 6,660,884 |
| Local option sales tax | 921,889 | 921,345 | 829,195 | 887,597 | 841,802 |
| Interest and penalty on property tax | 38,063 | 30,943 | 39,185 | 38,270 | 43,876 |
| Intergovernmental | 5,695,676 | 6,250,720 | 6,190,827 | 4,164,364 | 5,174,204 |
| Licenses and permits | 36,642 | 22,139 | 28,798 | 23,117 | 28,088 |
| Charges for service | 639,026 | 686,947 | 744,749 | 582,132 | 556,546 |
| Use of money and property | 347,693 | 410,103 | 362,220 | 316,903 | 278,977 |
| Fines, forfeitures and defaults | 123,955 | 123,092 | 91,381 | 99,863 | 73,249 |
| Miscellaneous | 316,513 | 415,975 | 787,585 | 705,623 | 752,156 |
| TOTAL REVENUES | <u>\$15,212,170</u> | <u>\$15,932,175</u> | <u>\$ 16,140,456</u> | <u>\$ 13,702,389</u> | <u>\$14,409,782</u> |
| EXPENDITURES: | | | | | |
| Operating: | | | | | |
| Public safety and legal services | \$ 2,853,594 | \$ 2,707,807 | \$ 2,757,142 | \$ 2,655,145 | \$ 2,202,745 |
| Physical health and social services | 740,391 | 723,405 | 628,390 | 590,637 | 502,403 |
| Mental health | 334,920 | 1,144,941 | 747,666 | 847,405 | 2,088,406 |
| County environment and education | 1,468,092 | 1,303,848 | 1,321,749 | 1,391,912 | 1,295,286 |
| Roads and transportation | 5,190,551 | 4,371,191 | 4,136,914 | 4,418,874 | 4,400,579 |
| Governmental services to residents | 432,271 | 408,179 | 412,486 | 520,099 | 385,111 |
| Administration | 2,034,326 | 2,674,463 | 1,969,052 | 1,692,042 | 1,665,165 |
| Non-program | 353,384 | 172,933 | 139,434 | 685,663 | - |
| Debt service | 658,092 | 730,936 | 1,078,683 | 768,983 | 365,422 |
| Capital projects | 2,996,518 | 2,257,131 | 1,195,323 | 5,450,448 | 2,833,806 |
| TOTAL EXPENDITURES | <u>\$ 17,062,139</u> | <u>\$ 16,494,834</u> | <u>\$ 14,386,839</u> | <u>\$ 19,021,208</u> | <u>\$ 15,738,923</u> |

Schedule 5

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 6,373,835 | \$ 6,042,792 | \$ 5,668,597 | \$ 5,405,607 | \$ 5,470,168 |
| 857,945 | 675,442 | 765,114 | 856,468 | 823,558 |
| 37,238 | 37,021 | 37,362 | 31,812 | 24,806 |
| 5,048,931 | 5,063,230 | 4,959,606 | 4,015,496 | 4,075,174 |
| 25,404 | 34,107 | 23,061 | 30,657 | 14,679 |
| 545,594 | 476,463 | 475,048 | 487,961 | 442,998 |
| 285,788 | 266,939 | 393,957 | 412,077 | 541,725 |
| 46,268 | 29,483 | 28,124 | 32,173 | 22,644 |
| 574,453 | 638,676 | 620,503 | 587,030 | 543,863 |
| <u>\$13,795,456</u> | <u>\$13,264,153</u> | <u>\$12,971,372</u> | <u>\$ 11,859,281</u> | <u>\$11,959,615</u> |
| | | | | |
| \$ 2,365,668 | \$ 2,051,702 | \$ 2,142,067 | \$ 1,945,200 | \$ 2,038,863 |
| 562,897 | 435,109 | 462,235 | 393,998 | 384,688 |
| 1,648,865 | 1,463,204 | 1,617,586 | 1,595,028 | 1,423,246 |
| 1,490,692 | 1,240,370 | 1,297,745 | 1,205,794 | 1,013,236 |
| 4,008,338 | 4,311,846 | 4,007,797 | 3,526,115 | 3,304,187 |
| 411,892 | 404,603 | 405,603 | 392,904 | 348,120 |
| 1,572,885 | 1,436,285 | 1,383,677 | 1,331,612 | 1,212,763 |
| - | - | - | - | - |
| 853,286 | 347,599 | 401,174 | 444,241 | 498,050 |
| 607,939 | 1,751,650 | 1,143,530 | 288,824 | 1,228,957 |
| <u>\$ 13,522,462</u> | <u>\$ 13,442,368</u> | <u>\$ 12,861,414</u> | <u>\$ 11,123,716</u> | <u>\$ 11,452,110</u> |



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Clay County:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay County's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clay County's internal control. Accordingly, we do not express our opinions on the effectiveness of Clay County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-16, I-B-16, and I-C-16 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Clay County's Responses to the Findings

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clay County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winter, Stave & Co., LLP

November 30, 2016
Spencer, Iowa

CLAY COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies:

I-A-16 Segregation of Duties - We evaluated the system of internal accounting control procedures in order to determine whether incompatible duties, from a control standpoint, are performed by the same employee. Segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted instances where one employee is capable of performing incompatible duties.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, each County office should review operating procedures to obtain the maximum internal control possible under the circumstances.

Response - While the size of our staff has a limiting effect on our ability to have complete segregation of duties, we will strive to segregate where possible and insure review of those areas where complete segregation is not feasible.

Conclusion - Response accepted.

I-B-16 Financial Reporting - During our audit, we noted the County, as in many organizations its size, has management and employees who, while knowledgeable and skillful, are not able to maintain the expertise to fully prepare County financial statements, primarily as related to the government-wide financial statements and required disclosures.

Recommendation - The County should consider whether to obtain additional knowledge or training related to financial statement preparation.

Response - We will consider the extent of additional knowledge or training to obtain.

Conclusion - Response accepted.

I-C-16 Due Diligence - We noted the County has agreed to perform due diligence in connection with the use of the proceeds from the issuance of Local Option Sales and Services Tax Improvement and Refunding Bonds, Series 2015. However, the County has not established procedures to satisfy the due diligence requirements.

Recommendation - The County should establish applicable due diligence procedures.

Response - We will establish due diligence procedures.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were reported.

CLAY COUNTY
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2016

Part II: Other Findings Related to Required Statutory Reporting

- II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the non-program function.

Recommendation - The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when required.

Conclusion - Response accepted.

- II-B-16 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-16 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- II-D-16 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Description</u> | <u>Amount</u> |
|---|-----------------------|---------------|
| Coffman's Locksmith, owned by spouse of employee Audrey Coffman | Services and products | \$ 8,057 |
| Chapman Doors, owned by spouse of employee Heidi Chapman | Services and products | 1,862 |
| Jason Hass, employee | Contract work | 1,932 |
| Mr. B's Flooring, owned by spouse of employee Tammy Brown | Services and products | 102 |
| Chuck Pitts, spouse of County Auditor Marge Pitts | Election worker | 92 |

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Chapman Doors and Jason Hass may represent a conflict of interest since total transactions more than \$1,500 during the fiscal year were not entered into through competitive bidding.

CLAY COUNTY
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2016

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-D-16 Business Transactions - Continued

Recommendation - We recommend the Board consider whether or not certain services and products should be entered into through competitive bidding.

Response - We will consider whether competitive bidding is required in these situations.

Conclusion - Response accepted.

II-E-16 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to insure that the coverage is adequate for current operations.

II-F-16 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-16 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy.

II-H-16 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

II-I-16 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in the government-wide financial statements.

Disbursements during the year ended June 30, 2016 for the County Extension Office did not exceed the amount budgeted.

II-J-16 Tax Increment Financing (TIF) - For the year ended June 30, 2016, the County Auditor prepared a reconciliation of TIF receipts with total outstanding TIF debt for each City.